

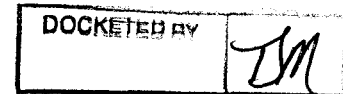
ORIGINAL

BEFORE THE ARIZONA CORPORATION

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JUL 26 2012



COMMISSIONERS

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2012 JUL 26 P 4: 04

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF PIMA
UTILITY COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS WATER
RATES AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO. W-02199A-11-0329

IN THE MATTER OF THE APPLICATION OF PIMA
UTILITY COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
WASTEWATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-02199A-11-0330

STAFF'S REPLY BRIEF

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"), hereby files its Reply brief, in this matter in response to the arguments and assertions made in the initial closing briefs of Pima Utility Company ("Pima" or "Company") and the Residential Utility Consumer Office ("RUCO").

Staff has considered the information presented and the arguments made by the various parties to this matter both at the hearing in this matter and in the initial post-hearing briefs. However, Staff has not been persuaded that its findings and determinations were in error. Therefore, Staff continues to maintain the positions taken and the recommendations made in its initial post-hearing brief.

I. RATE BASE ISSUES.

A. Pima's Wastewater Treatment Facility Contains Excess Capacity.

The Company argues that because its service area is built out, with no growth opportunity, there should be no concern about intergenerational inequities.¹ However, the evidence presented is at odds with testimony of Company witness Ray Jones.

The Company relies on data and assumptions from 1994 to support its position that there is no excess capacity in its Wastewater Treatment Facility ("WWTF"). According to Mr. Jones, in the

¹ Pima Br.at 7.

1 service area, certain areas were planned for multi-family dwellings.² But the multi-family dwellings
2 were not built.³ Mr. Jones acknowledged that the capacity added at the WWTF was slightly more
3 than the units that it ended up serving.⁴ According to the exhibit to Mr. Jones rebuttal testimony,
4 Exhibit RLJ-RB3, the current units are 10,701 and the 1994 projected build out, which was the design
5 build out, was 11,237, a difference of 536 units.⁵ Testimony showed that during the test year, for
6 peak day flows, the Company treated 1,438,000 gallons in one day in January of the test year.⁶ Thus,
7 fewer units being served combined with reduced flows has contributed to the excess capacity being
8 experienced at the Pima WWTF.

9 The Company states in its brief that it is neither fair nor reasonable to exclude plant from rate
10 base that it was required by the Arizona Department of Environmental Quality to build.⁷ But as Staff
11 witness Marlin Scott, Jr. testified, there have been instances where a wastewater treatment facility
12 may have been permitted for one capacity and later that capacity went unused.⁸ In those instances
13 Staff has recommended removal of the excess capacity.⁹

14 The evidence demonstrates that the available plant capacity in the Pima WWTF exceeds the
15 amount necessary to serve its existing customers. A utility "is entitled to a fair return on the fair value
16 of its properties devoted to the public use, no more and no less."¹⁰ Where plant is not yet being used
17 for the benefit of ratepayers, the cost of the plant cannot be included in rate base.¹¹ Staff's
18 recommendations regarding the wastewater plant are reasonable and should be adopted.

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20 ...

21 ...

22 ² Tr. Vol. I at 41:16-22.

23 ³ Exh. A-2 at 6, Jones Rebut.

24 ⁴ Tr. Vol. I at 41:23-25.

25 ⁵ Exh. A-2 at 5, Jones Rebut.

26 ⁶ *Id.*

27 ⁷ *Id.* at 9.

28 ⁸ Tr. Vol. III at 422:8-17.

⁹ *Id.*

¹⁰ *Ariz. Corp. Comm'n v. Ariz. Water Co.*, 85 Ariz. 198, 203, 335 P.2d 412, 415 (1959).

¹¹ *Consol. Water Utils Ltd. v. Ariz. Corp. Comm'n*, 178 Ariz. 478, 483, 875 P.2d 137, 142 (App.1993).

1 **II. INCOME STATEMENT/OPERATING EXPENSE ISSUES.**

2 **A. Pima's Arguments in Support of an Income Tax Allowance Are Unpersuasive.**

3 Pima's arguments in support of an income tax allowance focus on two points. First, the lack
4 of an income tax allowance provides a disincentive for investment in utility infrastructure.¹² And
5 lastly, because tax is generated from income generated in the operation of a utility, there should
6 recovery of an income tax allowance.¹⁴ These arguments are flawed, unpersuasive and lack support in
7 the record in this docket.

8 The evidence in this record and the recent history of utility acquisitions belies the Company's
9 arguments that the lack of an income tax allowance for pass-through entities presents an impediment
10 to investment in infrastructure. In the last five years, there has been significant acquisition activity in
11 Arizona. EPCOR, USA acquired Arizona-American Water Company 2011 and Chaparral City Water
12 Company in 2010. Utilities Inc., acquired the stock of Perkins Mountain Water and Perkins Mountain
13 Sewer in 2007.

14 The Company's own actions through its history contradict its argument. The Sun Lakes
15 development was commenced in the early 1970s by Sun Lakes Marketing, Ltd. ("SLM"). Pima and
16 SLM had a commonality of ownership.¹⁵ Pima did not need an income tax allowance as an incentive
17 to invest in infrastructure. Pima's incentive was to provide water and wastewater service to its
18 affiliated development. At the time Pima was granted its certificate of convenience, and for a period
19 of time thereafter Pima switched back and forth between a C-Corp and an S-Corp. In 1972, the
20 Company was a C-Corp.¹⁶ In 1973, the Company elected to an S Corp.¹⁷ In 1979, the Company
21 converted back to a C-Corp.¹⁸ In 1986, perhaps to take advantage of a change in the Federal Tax
22 Code, Pima converted back to an S-Corp, its current corporate form.¹⁹

23
24 ¹² Exh. A-12 at 2-4.

25 ¹⁴ *Id.*

26 ¹⁵ Tr. Vol. III at 388:21-389:1; also see *In the Matter of the Application of Pima Utility Co. for a*
27 *Permanent Increase In Its Sewer Rates*, Dec. No. 62184 at 2 (Jan. 2000).

28 ¹⁶ Tr. Vol. III at 388.

¹⁷ *Id.*

¹⁸ *Id.* at 389

¹⁹ *Id.*

1 If there needs to be an incentive to invest in Arizona, there are other tools in the
2 Commission's tool box that can be used to encourage investment in infrastructure. An allowance for
3 an expense that the utility does not incur is not one of them.

4 The Company argues that its provision of utility service gives rise to a tax liability.²⁰ But it is
5 undisputed that Pima, as an S-Corp, incurs no tax liability and pays no income tax.²¹ The Company
6 asserts that because income arises from the operation of a utility, income tax liability is a cost of
7 service and should thus be allowed to recover the cost of that tax liability.²³ However, the Company
8 conveniently ignores the fact that while a C-Corp might actually incur a verifiable amount of income
9 tax expense, the same cannot be said for a pass-through entity.²⁴ Pima, as the public service
10 corporation did not incur an income tax expense in the test year.²⁵

11 Staff is neither trying to gain an unfair advantage nor evade the issue of income tax
12 allowance.²⁶ Staff's position has been the same for the last three years that this issue has surfaced;
13 there should be no income tax allowance for pass-through entities.²⁷

14 While Staff and RUCO are in agreement that because Pima does not incur an income tax
15 liability, it should not recover an income tax allowance in rates, Staff disagrees with the conclusion
16 that should the Commission allow Pima to recover an income tax allowance, that recovery would not
17 result in the setting of just and reasonable rates and thus unconstitutional.

18 There is no disagreement that the Commission is constitutionally endowed with a very broad
19 power to prescribe rates. Article 15, Section 3, of the Arizona Constitution provides, in relevant part,
20 that the Commission "shall have full power to, and shall, prescribe just and reasonable classifications
21 to be used and just and reasonable rates and charges to be made and collected, by public service
22 corporations within the State for service rendered therein" In determining just and reasonable

23 _____
24 ²⁰ Exh. S-10 at 9, Brown Surbt.

25 ²¹ *Id.* at 10.

26 ²³ Pima Br. at 25.

27 ²⁴ Exh. S-10 at 9.

28 ²⁵ *Id.* at 10.

²⁶ Pima Br. at 31.

²⁷ See Docket No. 08-0180 (Johnson Utilities); Docket No. 08-0406 (Sunrise Water Company);
Docket No. 08-0502 (Farmers Water) , Docket No. 09-0359 (Sahaurita Water Company).

1 rates, the Commission has broad discretion, subject to the obligation to ascertain the fair value of the
2 utility's property and to establish rates that "meet the overall operating costs of the utility and
3 produce a reasonable rate of return."²⁸

4 RUCO argues that setting rates based on an operating expense that does not exist will not
5 result in just and reasonable rates and is therefore unconstitutional.²⁹ Staff disagrees. The
6 Commission has the authority to impute equity and debt that does not exist as one of its tools in
7 setting rates. For example, the Commission has imputed a hypothetical capital structure in situations
8 where an imbalance in the capital structure has the potential to penalize rate payers, whether the
9 imbalance is the result of either too much debt or too much equity.³⁰

10 The court in *Consolidated Water Utilities, LTD v Arizona Corp Com'n*, while recognizing
11 that there were other jurisdictions which allowed income tax expenses for companies operating as an
12 S-Corp, found that the "decision to *allow or disallow* that tax expense is to be made by the
13 Commission, not the courts."³¹

14 A substantial portion of the Company's requested rate relief is attributable to its request for an
15 income tax allowance - over fifty percent of the requested increase for its wastewater division and
16 thirty percent of the requested increase for its water division. The Commission's role is not only to set
17 rates so a utility has the opportunity to earn a fair return, but also to protect the consumers from
18 overreaching utilities.³² In the instant case, the Company is overreaching. Pima not only requests an
19 overly generous salary allowance for Mr. Robson, but also an allowance for expenses it does not
20 incur - so that payment of the shareholders' personal income taxes are borne by its ratepayers. Staff
21 recommends that there be no income tax expense allowance.

22 ...

23 ...

24
25 ²⁸ *Scates v. Ariz. Corp. Comm'n*, 118 Ariz. 531, 534, 578 P.2d 615 (App. 1978).

26 ²⁹ RUCO Br. at 15.

27 ³⁰ See *In the Matter of Southwest Gas Company*, Dec. No. 64847 (imputed more equity into the
capital structure); See *In the Matter of Gold Canyon Sewer Company*, Dec. No. 70624 (imputed debt
into the capital structure).

28 ³¹ 178 Ariz. 478, 484, 875 P.2d 137, 143 (1994).

³² *Ariz. Corp. Comm'n v. State ex rel. Woods*, 171 Ariz. 286, 290, 830 P.2d 807, 811 (1992).

1 RESPECTFULLY SUBMITTED this day 26th day of July, 2012.

2
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4 

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ATTACHMENT

BEFORE THE ARIZONA CORPORATION COMMISSION

MARCIA WEEKS
CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
DALE H. MORGAN
COMMISSIONER

Arizona Corporation Commission
DOCKETED

JAN 8 1988

DOCKETED BY

[Signature]

IN THE MATTER OF THE APPLICATION
OF CONSOLIDATED WATER UTILITIES, LTD.
PARKER SYSTEM, FOR AN INCREASE IN ITS
WATER RATES AND CHARGES FOR WATER
SERVICE IN ITS CERTIFICATED AREA IN
LA PAZ COUNTY, ARIZONA.

DOCKET NO. E-1009-86-216

IN THE MATTER OF THE APPLICATION OF
CONSOLIDATED WATER UTILITIES, LTD.,
PALM SPRINGS SYSTEM, FOR A RATE
ADJUSTMENT FOR ITS WATER SERVICE IN ITS
CERTIFICATED AREAS IN PINAL COUNTY,
ARIZONA.

DOCKET NO. E-1009-86-332

IN THE MATTER OF THE APPLICATION OF
CONSOLIDATED WATER UTILITIES, LTD.,
CIRCLE CITY SYSTEM, FOR AN INCREASE
IN ITS WATER RATES AND CHARGES FOR
WATER SERVICE IN ITS CERTIFICATED
AREA IN MARICOPA COUNTY, ARIZONA.

DOCKET NO. E-1009-86-217

DECISION NO. 55839

OPINION AND ORDER

DATES OF HEARING: April 6, April 7, April 20, May 28, and May 29, 1987

PLACES OF HEARING: Parker and Phoenix, Arizona

HEARING OFFICER: Marc E. Stern

IN ATTENDANCE: Marcia Weeks, Chairman, Arizona Corporation
Commission, Renz D. Jennings, Commissioner, and Dale
H. Morgan, Commissioner;

APPEARANCES: EVANS, KITCHEL AND JENCKES, by Richard L. Sallquist,
on behalf of Consolidated Water Utilities, Ltd.;

Richard L. Taylor, Intervenor;

Steven J. Glaser, Staff Attorney, Legal Division, on
behalf of the Arizona Corporation Commission Staff.

...

...

1 Officer of the Commission. The hearing of April 7, 1987, was continued until
2 April 20, 1987, with subsequent hearings taking place on May 28 and 29, 1987.
3 Besides the public comment which took place on April 6, in Parker, public
4 comment was also had from the Arizona Fire District Association Incorporated
5 in regards to the proposed Fire Hydrant Tariff in the Palms Springs
6 application. At the conclusion of a full public hearing, the matter was taken
7 under advisement by the Presiding Officer pending submission of his
8 Recommended Opinion and Order to the Commission.

9 DISCUSSION

10 With these applications, Consolidated is seeking rate relief for its
11 three divisions which are known as the Colorado Division aka Parker, Apache
12 Junction Division aka Palm Springs, and Circle City Division.

13 To begin with, we have examined the management contract between the three
14 systems entered into by Consolidated with an inter-related corporation,
15 Consolidated Utility Contracting, Inc. ("CUC"), which is controlled by
16 Consolidated and Consolidated's general partners. It is noted that the
17 General Manager of Consolidated is the President of CUC. After examining the
18 contract between CUC and Consolidated, it appears that the apportionment of
19 services as described by Consolidated's General Manager is in fact reasonable
20 and CUC's charges for its services which are furnished to Consolidated for the
21 day to day operations of Consolidated's water utilities are not out of line
22 for this service. This fact was also borne out by Staff. However, we do
23 question several expense items which appear in these cases.

24 In its applications, Consolidated has allowed for income taxes paid at
25 the corporate income tax rate. Consolidated maintains that this is proper.
26 Staff, on the other hand, has proposed two alternatives because of the fact
27 that Consolidated is a partnership and the partnership entity itself does not
28 pay any income taxes. It is merely a reporting entity regarding income paid

1 BY THE COMMISSION:

2 On September 5, 1986, Consolidated Water Utilities, Ltd., ("Consolidated"
3 or "Applicant") a partnership, filed two applications with the Arizona
4 Corporation Commission ("Commission") requesting hearings regarding its Parker
5 ("Parker") and Circle City ("Circle City") systems to determine the "fair
6 value" of their property for rate-making purposes, to fix a just and
7 reasonable rate of return thereon, and thereafter, to approve rate schedules
8 designed to produce said returns. On December 22, 1986, Consolidated filed a
9 third application on behalf of its Palm Springs ("Palm Springs") system again
10 requesting a hearing to determine the "fair value" of its property for
11 rate-making purposes, to fix a just and reasonable rate of return thereon, and
12 thereafter, to approve rate schedules to produce said return for that
13 system.¹ Richard L. Taylor requested intervention in the case involving the
14 Palm Springs application and was granted intervention on March 24, 1987. On
15 March 6, 1987, Consolidated mailed a copy of the Commission's Notice of
16 Hearing by first class U.S. mail to each of its customers of record in the
17 Parker and Palm Springs systems regarding the hearing that was scheduled in
18 Phoenix at the Commission's offices on April 7, 1987. On March 17, 1987, the
19 Applicant also notified its customers of record by first class U.S. mail in
20 the Circle City system of the pending hearing scheduled for April 7, 1987.

21 On April 6, 1987, public comment was taken in Parker, Arizona, in
22 response to numerous protests regarding the proposed rate increase by the
23 Applicant. The Chairman and other Commissioners were in attendance, as were
24 representatives of the Applicant. On April 7, 1987, the hearing was convened
25 at the Commission's offices in Phoenix before a duly authorized Hearing
26

27 1. Consolidated is a partnership which owns all three systems. A separate
28 docket number was applied to each application, but the three cases were
consolidated by a Procedural Order on February 25, 1987.

1 to its partners. Due to the Tax Reform Act of 1986, Staff recommended what it
2 believes is the appropriate income tax rate to be used by each of the
3 individual systems controlled by Consolidated. Staff has recommended that the
4 income tax rate for an unmarried individual taxpayer be used because Applicant
5 is a partnership. Alternatively, Staff, recommended that the corporate tax
6 rates be utilized in what is referred to as the Staff alternate in regards to
7 Staff's proposed rates. The Commission disagrees with the arguments proposed
8 by the Applicant and Staff. In our analysis, we cannot rationally allow
9 expenses for income taxes in any form which are not actually paid by the
10 operating entity that controls the water utilities. In this case, Consolidated
11 will pay no taxes on the income which it generates from the rates which are
12 authorized hereinafter. Therefore, we shall not allow any income tax expense
13 to be charged to its rate payers.

14 Another expense item which we wish to examine is that of the rate case
15 expense, which Consolidated and the Staff have amortized over a two year
16 period. In our opinion, the two-year amortization period is unreasonable. A
17 review of the Applicant's last rate cases for each of the three systems
18 illustrates that these utilities have not sought an increase since 1982.¹
19 Based on this pattern, we find that rate case expense should be amortized over
20 a four-year period rather than a two-year period as chosen by both Staff and
21 the Applicant.

22 We also find that the inclusion of Well No. 3 in rate base for the Palm
23 Springs system is improper because it is not used and useful. As a result,
24 plant should be reduced by \$48,809, as recommended by Staff, and \$2,440 in
25

26 1. Consolidated's Parker system was last authorized to increase its rates in
27 Decision No. 53306 (December 1, 1982); Palm Springs system in Decision No.
28 52092 (April 24, 1981); and the Circle City system in Decision No. 50232
(December 7, 1979).

1 depreciation expense should be disallowed.

2 In considering these three separate applications, it is our opinion that
3 the operations of all three systems must be considered together in arriving at
4 a rate of return for the partnership entity which owns and operates the public
5 water utilities. Although each system must be examined separately in terms of
6 its revenues and operating expenses, the overall picture must be considered in
7 setting a reasonable and just rate of return for the partnership. Under the
8 circumstances presented in these cases, we have decided to adopt Staff's
9 recommended rates, as adjusted herein, which provide for Consolidated to earn
10 a 9.14% percent rate of return on total Fair Value Rate Base.

11 * * * * *

12 Having considered the entire record herein and being fully advised in the
13 premises, the Commission finds, concludes, and orders that:

14 FINDINGS OF FACT

15 1. Consolidated is a partnership engaged in providing water for public
16 purposes in various parts of La Paz County, Pinal County, and Maricopa County,
17 Arizona, pursuant to authority granted by this Commission.

18 2. On September 5, 1986, Consolidated filed applications with the
19 Commission for its Parker and Circle City systems requesting the Commission to
20 determine the "fair value" of their property for rate-making purposes, to fix
21 a just and reasonable rate of return thereon, and to establish and approve
22 rate schedules designed to produce said return.

23 3. On December 22, 1986, Consolidated filed an additional application
24 with the Commission on behalf of its Apache Junction system requesting the
25 Commission to determine the "fair value" of its property for rate-making
26 purposes, to fix a just and reasonable rate of return thereon, and to
27 establish and approve rate schedules designed to produce said return.

28 4. Notice of the proposed rate increases was given to Consolidated's

customers in its Parker and Palm Springs systems on March 6, 1987, and in its Circle City system on March 17, 1987, by first class U.S. mail.

5. Consolidated's Test Year ("TY") ended December 31, 1985, provided its Palm Springs Division with \$155,361 in operating income; Parker with a \$129,484 operating loss; and its Circle City system with an operating loss of \$23,020, resulting in total operating income of \$2,857 for the TY.

6. Consolidated had a total Original Cost Rate Base ("OCRB") of \$3,344,925; a total Reconstructed Rate Base ("RCRB") of \$4,398,216; and a total Fair Value Rate Base ("FVRB") of \$3,871,571 as of the end of the TY.

7. The Palm Springs Division received its last permanent rate increase in Decision No. 52092 (April 24, 1981), which Decision authorized the following rate effective with May 1, 1981 usage:

MONTHLY USAGE CHARGE:		Present
(Includes no water)		Rates
5/8 x 3/4" Meter		\$ 10.00
3/4" Meter		—
1" Meter		25.00
1 1/2" Meter		50.00
2" Meter		100.00
3" Meter		100.00
4" Meter		100.00
5" Meter		—
6" Meter		100.00
Fire Hydrant - per month		5.00
Excess Gallonage Charge		
per 1,000 Gallons		3.54
SERVICE LINE AND METER INSTALLATION CHARGES:		
(Refundable pursuant to A.A.C. R14-2-405)		
5/8 x 3/4" Meter		\$100.00
3/4" Meter		120.00
1" Meter		160.00
1 1/2" Meter		300.00
2" Meter		400.00

SERVICE CHARGES:

Establishment \$ 10.00
 Deposit *

* Pursuant to A.A.C. R14-2-403(B).

8. In its application for Palm Springs, Consolidated requested Commission authorization to increase its rates for water service, to which Staff proposed two alternatives due to the income tax question as follows:

MONTHLY USAGE CHARGE:

PROPOSED RATES

	<u>Company</u>	<u>Staff</u> (Individual tax rate)	<u>Staff</u> <u>Alternate</u> (Corporate tax rate)
5/8 x 3/4" Meter	\$ 10.50	\$ 10.50	\$ 10.50
3/4" Meter	22.00	22.00	22.00
1" Meter	26.50	26.50	26.50
1 1/2" Meter	55.00	55.00	55.00
2" Meter	110.00	110.00	110.00
3" Meter	150.00	150.00	150.00
4" Meter	200.00	200.00	200.00
5" Meter	---	---	---
6" Meter	350.00	350.00	350.00
Gallons in Minimum	-0-	-0-	-0-
Fire Hydrant - per month	7.00	7.00	7.00
Excess Gallonage - per 1,000	3.94	3.88	3.94

SERVICE LINE AND METER INSTALLATION CHARGES: See Note 1.
 (Refundable pursuant to A.A.C. R14-2-405)

5/8 x 3/4" Meter	\$175.00	\$175.00	\$175.00
3/4" Meter	185.00	185.00	185.00
1" Meter	225.00	225.00	225.00
1 1/2" Meter	475.00	475.00	475.00
2" Meter	550.00	550.00	550.00
3" Meter	Cost	Cost	Cost
4" Meter	Cost	Cost	Cost
5" Meter	Cost	Cost	Cost
6" Meter	Cost	Cost	Cost

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SERVICE CHARGES:

Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	25.00	25.00	25.00
Reconnect (Delinquent) See Note 2.	25.00	25.00	25.00
Meter Test (If Correct) See Note 3.	15.00	15.00	15.00
(5/8 x 3/4" Meter)			
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	15.00	15.00
Deferred Payment	--	--	--
Meter Re-Read (If Correct)	10.00	10.00	10.00

* Pursuant to A.A.C. R14-2-403(B).

** Number of months off system times the monthly minimum.

Note 1. Pavement cutting or road boring at actual cost.

Note 2. Consolidated has requested that in the event the delinquent customer or a member of his/her household requests service at the same address within the 12-month period following disconnection for delinquency, the utility shall require payment of the \$25.00 delinquent reconnect fee plus a guarantee deposit plus any unpaid delinquent amount plus (the minimum charge times the number of months between disconnection and reconnection).

Note 3. Other meter sizes and bench tests will be at actual cost.

9. Staff has also recommended that Consolidated file a schedule for the collection of any proportionate share of any privilege, sale, or use tax pursuant to A.C.C. R14-2-409(D)(5) for all three systems.

10. Parker received its last permanent rate increase in Decision No. 53306 (December 1, 1982), which Decision authorized the following rates effective with December 1, 1982 usage:

<u>MONTHLY USAGE CHARGE:</u> (Includes 2,000 Gallons)	<u>Present Rates</u>
5/8 x 3/4" Meter	\$ 10.50
3/4" Meter	--
1" Meter	15.00
1 1/2" Meter	25.00
2" Meter	50.00
Fire Hydrant - per month	7.00
Excess Gallonage Charge per 1,000 Gallons	2.20

1 SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

2	5/8 x 3/4" Meter	\$100.00
3	3/4" Meter	120.00
	1" Meter	160.00
4	1 1/2" Meter	300.00
	2" Meter	370.00

5 SERVICE CHARGES:

6	Establishment	\$ 10.00
7	Establishment (After Hours)	25.00
	Reconnection (Delinquent)	10.00
8	Meter Test (If Correct)	15.00
	(5/8 x 3/4" Meter) See Note 1.	
9	Deposit	*
	Deposit Interest	*
10	Re-Establishment (Within 12 Months)	**
	NSF Check	10.00
11	Deferred Payment	—
	Meter Re-Read (If Correct)	10.00

12 * Pursuant to A.A.C. R14-2-403(B).

13 ** Minimum monthly charge less value of water included in minimum for
each month or fraction thereof.

14 Note 1. All other sizes and bench tests required will be at actual cost.

15
16 11. Consolidated with its September 5, 1986, application for Parker
17 requested the Commission's authorization to increase its rates for water
18 service, to which Staff proposed two alternatives due to the income tax
19 question, as follows:

20 MONTHLY USAGE CHARGE:

-----PROPOSED RATES-----

	Company	Staff (Individual tax rate)	Staff Alternate (Corporate tax rate)
21			
22	5/8 x 3/4" Meter	\$ 15.00	\$ 14.75
	3/4" Meter	22.00	20.00
23	1" Meter	27.00	22.00
	1 1/2" Meter	48.00	32.00
24	2" Meter	100.00	75.00
	3" Meter	125.00	100.00
25	4" Meter	175.00	125.00
	6" Meter	225.00	175.00
26			
	Gallons in Minimum	-0-	1,000
27			
28	...		

1	Fire Hydrant - per month	7.00	7.00	7.00
2	Excess Gallonage - per 1,000 gallons	4.40	3.93	3.95

3 SERVICE LINE AND METER INSTALLATION CHARGES: See Note 1.
(Refundable pursuant to A.A.C. R14-2-405)

4	5/8 x 3/4" Meter	\$175.00	\$175.00	\$175.00
5	3/4" Meter	185.00	185.00	185.00
	1" Meter	225.00	225.00	225.00
6	1 1/2" Meter	475.00	475.00	475.00
7	2" Meter	550.00	550.00	550.00
	3" Meter	Cost	Cost	Cost

8 SERVICE CHARGES:

9	Establishment	\$ 25.00	\$ 25.00	\$ 25.00
	Establishment (After Hours)	25.00	25.00	25.00
10	Reconnect (Delinquent) See Note 2.	25.00	25.00	25.00
11	Meter Test (If Correct) See Note 3.	15.00	15.00	15.00
	(5/8 x 3/4" Meter)			
	Deposit	*	*	*
12	Deposit Interest	*	*	*
	Re-Establishment (Within 12 Months)	**	**	**
13	NSF Check	15.00	15.00	15.00
	Meter Re-Read (If Correct)	10.00	10.00	10.00

* Pursuant to A.A.C. R14-2-403(B).

** Number of months off system times the monthly minimum.

Note 1. Road crossing involving cutting or boring at cost.

Note 2. Consolidated has requested that in the event the delinquent customer or a member of his/her household request service at the same address within the 12-month period following disconnection for delinquency, the utilities shall require payment of the \$25.00 delinquent reconnect fee plus a guaranteed deposit plus any unpaid delinquent amount plus (the minimum charge time the number of months between disconnection and reconnection).

Note 3. Other meter sizes and bench tests at actual cost.

12. Circle City received its last permanent rate increase in Decision No. 50232 (September 7, 1979), which Decision authorized the following rates effective with September 1, 1979 usage:

MONTHLY USAGE CHARGE:
(Includes 4,000 Gallons
for 5/8 x 3/4" Meters and
5,000 Gallons of meters larger than 1")

	Present Rates
27	5/8 x 3/4" Meter \$ 7.00
	1 1/2" Meter 55.00
28	2" Meter 55.00

1 Excess Gallonage Charge
per 1,000 Gallons .99

2 SERVICE LINE AND METER INSTALLATION CHARGES:
3 (Refundable pursuant to A.A.C. R14-2-405)

4 5/8 x 3/4" Meter \$100.00
3/4" Meter 120.00
5 1" Meter 160.00
1 1/2" Meter 300.00
6 2" Meter 400.00

7 SERVICE CHARGES:

8 Reconnection (Delinquent) 5.00
Deposit *
9 Deposit Interest *
Re-Establishment (Within 12 Months) **
10 Meter Re-Read (If Correct) 2.50

11 * Pursuant to A.A.C. R14-2-403(B).

12 ** Number of months off the system times the monthly minimum.

13 13. On September 5, 1986, Consolidated filed an application for Circle
14 City requesting authorization to increase its rates for water service, to
15 which Staff proposed two alternatives as follows:

16 MONTHLY USAGE CHARGE:

MONTHLY USAGE CHARGE:		-----PROPOSED RATES-----		
		<u>Company</u>	<u>Staff</u>	<u>Staff</u> <u>Alternate</u>
16				
17				
	5/8 x 3/4" Meter	\$ 15.00	\$ 10.75	\$ 9.25
18	3/4" Meter	22.00	22.00	22.00
	1" Meter	35.00	35.00	35.00
19	1 1/2" Meter	75.00	75.00	75.00
	2" Meter	150.00	100.00	90.00
20	3" Meter	175.00	125.00	125.00
	4" Meter	200.00	150.00	150.00
21	6" Meter	250.00	175.00	175.00
22	Gallons in Minimum	2,000	2,000	2,000
23	Fire Hydrant - per month	7.00	7.00	7.00
24	Excess Gallonage - per 1,000	2.95	1.95	1.35

25 . . .

26 . . .

27

28

SERVICE LINE AND METER INSTALLATION CHARGES: See Note 1.
(Refundable pursuant to A.A.C. R14-2-403)

5/8 x 3/4" Meter	\$175.00	\$175.00	\$175.00
3/4" Meter	185.00	185.00	185.00
1" Meter	225.00	225.00	225.00
1 1/2" Meter	475.00	475.00	475.00
2" Meter	550.00	550.00	550.00
3" Meter	Cost	Cost	Cost
4" Meter	Cost	Cost	Cost
6" Meter	Cost	Cost	Cost

SERVICE CHARGES:

Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	25.00	25.00	25.00
Reconnect (Delinquent) See Note 2.	25.00	25.00	25.00
Meter Test (If Correct) See Note 3.	15.00	15.00	15.00
(5/8 x 3/4" Meter)			
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	15.00	15.00
Meter Re-Read (If Correct)	10.00	10.00	10.00

* Pursuant to A.A.C. R14-2-403(B).

** Number of months off system times the monthly minimum.

Note 1. Road crossing involving cutting or boring at cost.

Note 2. In the event the delinquent customer or a member of his/her household request service at the same address within the 12-month period following disconnection for delinquency, the utilities shall require payment of the \$25.00 delinquent reconnect fee plus a guaranteed deposit plus any unpaid delinquent amount plus (the minimum charge time the number of months between disconnection and reconnection).

Note 3. Other meter sizes and bench tests at actual cost.

14. Consolidated's proposed rates for the three systems would produce total revenues of \$1,798,327 and total operating expenses of \$1,305,253, resulting in operating income for the TY of \$493,074.

15. Consolidated's proposed rates for its three systems would result in a 12.74% rate of return on total FVRB.

16. Since the Applicant has not sought rate relief for any of its three systems in more than four years, it is improper to amortize the rate case expense over a period of two years as proposed by both the Applicant and

Staff, it should be amortized over a period of four years.

17. As we stated earlier, we believe that it is necessary to make an adjustment to the rate base of the Palm Springs' system by removing \$48,809 representing the value of Well No. 3 which Staff has found not used and useful, which reduces the Palm Springs' original cost plant from \$3,501,190 to \$3,452,381.³

18. It is improper to impute any income tax expense for the three systems since Consolidated is a partnership and, accordingly, we have not considered these expenses in arriving at fair and reasonable rates.

19. Staff's proposed rates and charges for the Applicant's three systems would produce \$1,659,081 in total operating revenues and \$1,305,253 in total operating expenses after our adjustments, resulting in \$353,828 in total operating income for the TY.

20. The Fair Value Rate Base of the three water utilities systems is determined to be as follows: Palm Springs \$2,372,086; Parker \$1,300,590; and Circle City \$198,895. resulting in a total FVRB of \$3,871,571.

21. During the TY, Consolidated had a total of 3,246 customers.⁴

22. According to Staff, Consolidated's proposed rates for its Palm Springs system would result in a 9.2 percent increase for its average users, while Staff's proposed rates would result in an 8 percent increase for the average user; in the Parker system, the Applicant's proposed rates would cause the rates of an average user to increase by 119.5 percent while Staff's proposed rates would cause an increase of 78.1 percent; and in Circle City the Applicant's proposed rates would cause the rates of an average user to

3. An adjustment would also be required to the TY depreciation expense in the amount of \$2,440 (\$48,809 x .05).

4. Palm Springs had 1,594 customers; Parker 1,543 customers; and Circle City 109 customers.

1 increase by 198.3 percent and Staff's proposed rates would cause an
2 increase of 103.4 percent.

3 23. A fair and reasonable rate of return on Consolidated's total FVRB
4 for its three systems is 9.14 percent after our adjustments as previously
5 described herein.

6 24. The rates authorized herein below are designed to produce a 9.14
7 percent rate of return on Consolidated total FVRB.

8 CONCLUSIONS OF LAW

9 1. Consolidated's Palm Springs, Parker, and Circle City water systems
10 are public service corporations within the meaning of Article XV of the
11 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

12 2. The Commission has jurisdiction over Consolidated and each of its
13 three systems and of the subject matter of the applications.

14 3. Notice of Consolidated's applications and proposed tariffs was
15 given in the manner prescribed by law.

16 4. The rates and charges proposed by Applicant for Palm Springs,
17 Parker, and Circle City are not just and reasonable.

18 5. The increase in water rates and charges as are authorized
19 hereinafter are just and reasonable and should be approved by the Commission
20 pursuant to A.R.S. § 40-250.

21 ORDER

22 IT IS THEREFORE ORDERED that the Palm Springs system of Consolidated
23 Water Utilities, Ltd., be, and the same is, authorized and directed to file
24 the following amended schedule of rates and charges:

25 . . .

26 . . .

27 . . .

28 . . .

1 MONTHLY USAGE CHARGE:
 2 (Includes no water)

3	5/8 x 3/4" Meter	\$ 10.50
4	3/4" Meter	22.00
5	1" Meter	26.50
6	1 1/2" Meter	55.00
7	2" Meter	110.00
8	3" Meter	150.00
9	4" Meter	200.00
10	5" Meter	—
11	6" Meter	350.00
12	Fire Hydrant - per month	7.00
13	Excess Gallonage Charge	
14	per 1,000 Gallons	\$ 3.88

15 SERVICE LINE AND METER INSTALLATION CHARGES:
 16 (Refundable pursuant to A.A.C. R14-2-405)

17	5/8 x 3/4" Meter	\$175.00
18	3/4" Meter	185.00
19	1" Meter	225.00
20	1 1/2" Meter	475.00
21	2" Meter	550.00
22	3" Meter	Cost
23	4" Meter	Cost
24	5" Meter	Cost
25	6" Meter	Cost

26 Road Crossing involving cutting or boring at actual cost.

27 SERVICE CHARGES:

28	Establishment	\$ 25.00
29	Establishment (After Hours)	25.00
30	Reconnect (Delinquent)	25.00
31	Meter Test (If Correct) *	15.00
32	(5/8" x 3/4" meter)	
33	Deposit	**
34	Deposit Interest	**
35	Re-Establishment (Within 12 Months)	***
36	NSF Check	15.00
37	Deferred Payment	—
38	Meter Re-Read (If Correct)	10.00

39 * Other meter sizes and bench tests will be at actual cost.

40 ** Pursuant to A.A.C. R14-2-403(B).

41 *** Number of months off system times the monthly minimum.

42 IT IS FURTHER ORDERED that the Parker system of Consolidated Water
 43 Utilities, Ltd., be, and the same is, authorized and directed to file the

1 following amended schedule of rates and charges:
MONTHLY USAGE CHARGE:

2 (Includes 1,000 Gallons)

3	5/8 x 3/4" Meter	\$ 14.75
	3/4" Meter	20.00
4	1" Meter	22.00
	1 1/2" Meter	32.00
5	2" Meter	75.00
	3" Meter	100.00
6	4" Meter	125.00
	6" Meter	175.00

7 Fire Hydrant - per month 7.00

8 Excess Gallonage - per 1,000 \$ 3.93
9 gallons

10 SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

11	5/8 x 3/4" Meter	\$175.00
12	3/4" Meter	185.00
	1" Meter	225.00
13	1 1/2" Meter	475.00
	2" Meter	550.00
14	3" Meter or larger	Cost

15 Road crossing involving cutting or boring at actual cost.

16 SERVICE CHARGES:

17	Establishment	\$ 25.00
	Establishment (After Hours)	25.00
18	Reconnect (Delinquent)	25.00
	Meter Test (If Correct) *	15.00
19	(5/8 x 3/4" Meter)	
	Deposit	**
20	Deposit Interest	**
	Re-Establishment (Within 12 Months)	***
21	NSF Check	15.00
	Meter Re-Read (If Correct)	10.00

22 * Other meter sizes and bench tests at actual cost.
23 ** Pursuant to A.A.C. R14-2-403(B).
24 *** Number of months off system times the monthly minimum.

25 IT IS FURTHER ORDERED that the Circle City system of Consolidated Water
26 Utilities, Ltd., be, and the same is, authorized and directed to file the
27 following amended schedule of rates and charges:
28 . . .

1 MONTHLY USAGE CHARGE:
2 (Includes 2,000 Gallons)

3	5/8 x 3/4" Meter	\$ 10.75
4	3/4" Meter	22.00
5	1" Meter	35.00
6	1 1/2" Meter	75.00
7	2" Meter	100.00
8	3" Meter	125.00
9	4" Meter	150.00
10	6" Meter	175.00

11 Fire Hydrant 7.00

12 Excess charge per 1,000 Gallons \$ 1.95

13 SERVICE LINE AND METER INSTALLATION CHARGES:
14 (Refundable pursuant to A.A.C. R14-2-405)

15	5/8 x 3/4" Meter	\$175.00
16	3/4" Meter	185.00
17	1" Meter	225.00
18	1 1/2" Meter	475.00
19	2" Meter	550.00
20	3" Meter	Cost
21	4" Meter	Cost
22	6" Meter	Cost

23 Road crossing involving cutting or boring at actual cost.

24 SERVICE CHARGES:

25	Establishment	\$25.00
26	Establishment (After Hours)	25.00
27	Reconnection (Delinquent)	25.00
28	Meter Test (If Correct) *	15.00
29	(5/8 x 3/4" Meter)	
30	Deposit	**
31	Deposit interest	**
32	Re-Establishment (Within 12 Months)	***
33	NSF Check	15.00
34	Meter Re-Read (If Correct)	10.00

- 35 * Other meter sizes and bench tests at actual cost.
36 ** Pursuant to A.A.C. R14-2-403(B).
37 *** Number of months off the system times the monthly minimum.

38 IT IS FURTHER ORDERED that the Palm Springs, Parker, and Circle City
39 systems of Consolidated Water Utilities, Ltd., file schedules for the
40 collection of any proportionate share of any privilege, sales, or use tax
41 pursuant to A.A.C. R14-2-409(D)(5).
42

1 IT IS FURTHER ORDERED that said rates and charges shall be effective for
2 all service provided on or after January 1, 1988.

3 IT FURTHER ORDERED that the Palm Springs, Parker, and Circle City systems
4 of Consolidated Water Utilities, Ltd., shall notify each of their customers by
5 means of insert in the next regular monthly billing of the approved rates and
6 charges and the effective date of same.

7 IT IS FURTHER ORDERED that this Decision shall become effective
8 immediately.

9 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

10
11 *[Signature]*
12 CHAIRMAN

11 *[Signature]*
12 COMMISSIONER

11 *[Signature]*
12 COMMISSIONER

13 IN WITNESS WHEREOF, I, JAMES MATTHEWS, Executive
14 Secretary of the Arizona Corporation Commission,
15 have hereunto set my hand and caused the official
16 seal of this Commission to be affixed at the
17 Capitol, in the City of Phoenix, this 8 day
18 of January, 1987.

17 *[Signature]*
18 JAMES MATTHEWS
19 Executive Secretary

19 DISSENT _____

20 MES:11